

Research in Brief



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Emergency Support Measures in Response to Covid-19

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Introduction

The World Health Organization on March 11 has declared covid-19 as a pandemic, raising its alertness to the maximum. Many countries around the world have declared a state of emergency, closed national borders and blocked the movement of people between regions. Also, many countries have announced fiscal policy measures as part of their effort to mitigate the socioeconomic impact of the covid-19 pandemic. Despite these efforts, covid-19 is predicted to last for some time with its impact, it has been claimed, so devastating as to create an economic crisis on a global scale.

With its prompt responses based on the Infectious Disease Control and Prevention Act, Korea has stood out as an international exemplar in the fight against the virus. The covid-19 crisis however, requires more than successful public health measures, in that the pandemic is likely to affect not only the disadvantaged segment of the economy but also the core economically active population. In fact, the economic impact of covid-19 is already in sight. For example, the number of new claims for unemployment benefits in March increased by 30 thousand month-on-month to 156 thousand with a total amount of around KRW900 billion, an all-time high.

The timing (promptness) and appropriateness of support is of utmost importance in crisis situations. The Korean government has implemented three rounds of emergency fiscal expansion to provide living support for self-employed people, workers suffering unemployment and those socioeconomically disadvantaged. Also, some of the country's local governments have implemented temporary basic income transfers. This report examines emergency income support measures taken in response to the covid-19 pandemic in Korea and elsewhere.



A review of emergency responses to covid-19

Many countries around the world have put forth massive fiscal packages in response to the covid-19 crisis. The scale of these packages as a share of GDP ranges from a high of 18% for the UK to a low of 2~3%. Covid-19 emergency income support programs come in two types. The first includes indirect support programs intended for businesses and self-employed people. The goal is to maintain employment and keep workers from becoming unemployed. The second type represents direct support programs—sickness pay, unemployment benefit, income support for low-income families, voucher programs, etc.—targeted to individuals and families, with benefits provided in cash and in-kind. Most countries take a combination of both. The focus of both direct and indirect support programs is on minimizing business closures and job losses. Those European countries with a well-developed welfare state are making full use of their existing social safety nets (sick benefits, unemployment allowance, social assistance, and active labor market policy, etc.), temporarily easing restrictions previously placed on benefit eligibility, spell and caps. In the case of the US and Korea, where social safety nets are less well-developed than in European countries, income support has taken the form of “disaster basic income.”

[Table 1] Emergency income support measures in response to covid-19, selected OECD countries

Country	Policy packages	Direct support for individuals and families	Indirect support for firms and self-employed businesses
Sweden	A number of comprehensive packages totaling EUR 62.1 billion, nearly 13 percent of GDP	<ul style="list-style-type: none"> - Temporarily discontinued sickness benefit qualifying days; the government to assume the cost of all sick pay for the months of April and May - Temporary reinforcement of unemployment insurance: temporarily relaxed eligibility conditions; temporary increases in both the highest and the lowest benefit amounts - Increased active labor market policy: increased public employment service; increased the period during which a person may have a subsidized job; increased jobs for young people; increased green jobs; increased opportunities for training and education - Temporary removal of the income ceiling for student aid 	<ul style="list-style-type: none"> - Introduced on March 16 a short-term layoffs scheme whereby employees receive more than 90 per cent of their wages through government subsidies. - Employers can defer employer social security contributions, preliminary tax on salaries and value added tax for up to 12 months. - The government on March 20 announced a new support package for small businesses, with increased loans, broadened credit guarantees, and support for cultural activities that lose revenues
Germany	A EUR 1 trillion package of measures to counter the impact of covid-19 on the economy, including a supplementary budget of EUR156 billion	<ul style="list-style-type: none"> - Eased access to basic income support for jobseekers (as per Book 2 of the German Social Security Code (SGB II)) and social assistance (as per Book 2 of SGB XII), with assets and apartment size not taken into account - Child allowance (Kinderzuschlag) for parents suffering temporary income loss 	<ul style="list-style-type: none"> - Short-time working schemes: in addition to compensating 60% of the difference in monthly net earnings due to reduced hours, the labor agency will now also cover 100% of social-security contributions for the lost work hours. - Support of up to EUR15,000 per firm for self-employed and small businesses with fewer than 10 employees

Country	Policy packages	Direct support for individuals and families	Indirect support for firms and self-employed businesses
France	Joint actions and coordination taken between national and regional authorities to manage the crisis; A fiscal package of EUR 16.5 billion for households and firms (0.7% of GDP); early reimbursements of tax credits (EUR 48.5 billion, 2.0% of GDP)	<ul style="list-style-type: none"> - Increased sick leave reimbursements for affected workers, as well as those facing school closures - Extended unemployment benefits (put on hold reforms in unemployment insurance) - Extended social rights (minimum welfare benefits, benefits for disabled people) - Relaxed the conditions for granting purchasing power bonus 	<ul style="list-style-type: none"> - Encouraged the short-term work scheme that provides a replacement rate of 70% for the average worker and 100% for a low-wage worker - Allowed postponement of the payments of social security contributions and taxes, and case-by-case exemptions - Provision of income support through a solidarity fund to self-employed people and entrepreneurs
UK	A GBP 401.5 billion fiscal package (18.1% of GDP) to counter the impact of coronavirus	<ul style="list-style-type: none"> - Universal Credit for self-employed (March 20): increased Universal Credit allowance by GBP1,000 for the next twelve months; suspension of the minimum income threshold - Removed the waiting time for statutory sick pay for self-quarantined people - Allowed individuals to defer their payments of personal income tax (until January 31, 2021) 	<ul style="list-style-type: none"> - For the next three months, starting from March 20, all employers are eligible to apply for a grant to cover 80% of retained workers' salaries of up to GBP 2,500 a month. - Provides self-employed a grant of up to 80% of their previous earnings over the last three years (capped at GBP 2,500 a month and open for those with an average profit of less than GBP 50,000)
US	An emergency USD 8.3billion fiscal package and a subsequent bill that is assumed to be worth USD 108 billion. The CARES Act will have total cost of around USD 2 trillion (9% of GDP)	<ul style="list-style-type: none"> - The Families First Coronavirus Response Act aimed: free testing for the coronavirus, 2-week paid sick leave, and additional paid sick leave of up to 3 months for workers with children; financial support for the expected increases in state-administered unemployment and Medicaid payments - The CARES Act provides support for households and businesses. The Act provides: income support for families in the form of direct payments of USD 1,200 for each adult and USD 500 for a child; increases in unemployment insurance payments to \$600 per week; an expansion of coverage to include the self-employed and gig economy workers, and extension of benefits from 26 weeks to 39 weeks; a deferral of interest and principal payments on federal student loans. 	<ul style="list-style-type: none"> - Tax reductions and deferrals for businesses of all sizes - A 50% payroll tax credit for severely affected businesses that agree to maintain employment levels

Country	Policy packages	Direct support for individuals and families	Indirect support for firms and self-employed businesses
Japan	A direct government spending of JPY 7.6 trillion or 1.4% of GDP (December 5, 2019); a second-phase fiscal package of JPY 430.8 billion (March 10, 2020).	<ul style="list-style-type: none"> - Provide support for parents to take leave in the event of the temporary closure of their children's school. - Deferments on tax payments for individuals and businesses affected by the covid-19 outbreak on taxpayers' request 	<ul style="list-style-type: none"> - Eased qualifications for the Employment Adjustment Subsidy, which provides SMEs and large corporations a financial support that covers 2/3 and 1/2 of the cost of special paid leaves, respectively (February 14); announced to raise the subsidy rates of the Employment Adjustment Subsidy from 2/3 to 9/10 for SMEs and from 1/2 to 3/4, respectively, for those do not dismiss employees between April and June - The National Tax Agency announced deadline extension (from mid-March to mid-April) for tax return filing and payment of personal income tax, gift tax, and consumption tax (for the self-employed)
Korea	A package of support measures totaling KRW 141 trillion (7.4% of GDP) -Approved on March 17 a supplementary budget of KRW 11.7 trillion (0.6% of GDP), -Announced on March 24 an additional fiscal package of KRW 100 trillion to support local government programs, households and businesses	<ul style="list-style-type: none"> - Consumption coupons for the poor - Emergency family care - "Disaster basic income" programs have been implemented or planned by the central and local governments 	<ul style="list-style-type: none"> - Support for firms to keep their workers on the payroll - Loans and guarantees for SMEs; indirect wage and rent support for small businesses

Source: oecd.org (<http://www.oecd.org/coronavirus/en/#country-profiles>: Key country policy response: Country Policy tracker. Updated on 2020. 4. 5)

The Korean government has announced a three-phase policy package totaling KRW 32 trillion, which is outlined in Table 2.

[Table 2] Emergency support measures in response to covid-19

Target group	Support measures	Total benefited	Amount
Low-income brackets	Subtotal (duplicates excluded)	4.845 million people	-KRW 1.17 ~ 1.49 million
	Consumption coupons for low-income families	1.687 households (2.3 million people)	-KRW 1.08 ~ 1.40 million (family of four; per months)
	50% reduction in National Health Insurance contributions (for lowest income quintile)	5.116 million people	-KRW 94,000 (per 3 months)
Small businesses	Subtotal (duplicates excluded)	800,000 businesses	-KRW 1.617 million (per employer)
	Reduction in labor cost	800,000 businesses	-Up to KRW 2.88 million (for 4 people; 4 months)
	Financial support	KRW 12 trillion	-KRW 30 ~ 100 million per business
	VAT reduction	1.33 million businesses	-KRW 600,000 for a business with annual sales of less than KRW 80 million -KRW 120,000 per "simplified taxpayer" (a business with annual sales of less than KRW 48 million)
	Rent reduction	Not estimable	-A 50-percent tax credit for the amount of reductions in rent
At-risk households and affected stores	Subtotal (duplicated excluded)	1.344 million people	-KRW 1 ~ 3 million (per business) -KRW 1.23 million (for job loss) x 6 (per family of four) -KRW 1.89 million x 6 months (for maintaining employment)
	Emergency aid	1.3444 million people	KRW 1.23 million (per family of four)
	Support for affected businesses	19.8 businesses	-KRW 3 million (visited by confirmed covid-19 cases) -KRW 2 million (closure) -KRW 1 million (long-term shutdown)
	Support for employers to employees in work	300,000 people	-KRW 1.26 million per month for 6 months (a monthly income of KRW 2 million)
Households with children under 7	Special Care Coupon	2.63 million people	-KRW 400,000 (per 4 months)
Elderly households	Senior Jobs Coupon	543,000 people	-KRW 236,000 (per 4 months)

Economic loss is inevitable as long as covid-19 lasts. However, an orderly recovery requires, as recommended by the International Monetary Fund, fiscal support measures. This is to say that the government needs to provide support in the form of wage subsidies with a view to preventing chain bankruptcies and mass layoffs and to facilitating an economic recovery. The focus of emergency support should lie primarily on providing businesses with wage subsidies so as to help them keep their employees on payroll and recoup, in part at least, their economic losses brought on by the covid-19 outbreak. Even if covid-19 were to dissipate in the second half of this year, its economic impact would last for quite a while. It is important therefore to focus support on maintaining existing jobs and on keeping people from falling into poverty.

The idiosyncratic features of Korea's labor market could mean that the effect of the covid-19 economic downturn may come as detrimental especially to Koreans. Small self-employed businesses and atypical workers as a share of the workforce are much larger in Korea than in other OECD countries (non-wage workers—business owners, self-employed people and unpaid family workers—account for as much as 25.5 percent of those in work; temporary and daily workers account for 23.3 percent). People aged 65 and over account for a smaller share (15.8 percent as of March 2020) of the population in Korea than in most European countries. However, even with an estimated 33.1 percent of those 65 and older in work (as of February 2020), the elderly poverty rate is higher in Korea than in just about any other OECD country. This is to say that Korea has a huge group of precarious workers who are likely to greatly suffer economically from the consequences of the covid-19 crisis. Korea lacks sick pay programs that most European countries have in place and its unemployment benefit scheme leaves out a considerable proportion of precarious workers, revealing a need for temporary measures to address the gaps in the existing system.

[Table 3] Emergency support package in response to covid-19

	Ex ante support for firms (self-employed businesses)	Ex post support for households	
Target groups	Ensuring and maintaining means of livelihood	Direct and selective livelihood support (response to at-risk families)	Quasi-universal livelihood assistance
Unemployed and precarious workers	Wage subsidies; support for firms to keep their employees in work	Employment benefits; temporary unemployment allowance; public jobs linked to self-reliance programs	Emergency disaster relief; emergency welfare support; National Basic Living Security
Self-employed people suffering loss of earnings/ business closure or shutdown	Financial support (low-interest loans); exemptions from social insurance contributions; tax reductions and deferrals; electricity bill reductions; support for affected businesses to resume operations		
Vulnerable groups including the elderly and people with disabilities	Public jobs/ senior jobs programs		Disaster basic income; consumption coupon

As is seen in Table 4, the provision of emergency support in disaster situations is based on the Infectious Disease Control and Prevention Act, the Framework Act on the Management of Disasters and Safety, and the Emergency Aid and Support Act. As different legal bases are likely to involve different resources and delivery methods, it is important to coordinate different benefit programs so they can be implemented in an orderly manner through a well-organized selection procedure.

[Table 4] Emergency support based on the Infectious Disease and Prevention Act, the Framework Act on the Management of Disasters and Safety, and the Emergency Aid and Support Act

Title of legislation	Infectious Disease Control and Prevention Act	Framework Act on the Management of Disasters and Safety	Emergency Aid and Support Act
Year of legislation	2009	2015	2005
Agency in charge	Ministry of Health and Welfare (Disease Policy Division)	Ministry of the Interior and Safety (Recovery Support Division)	Ministry of Health and Welfare (Basic Livelihood Security Division)
Target groups	Those suffering difficulties in maintaining livelihood due to imposition of temporary lockdown, entry and movement restrictions, isolation, quarantine, etc.	Residents of regions declared as special disaster areas (income losses in agricultural, fishing, forest and salt production businesses)	Either the primary earner or the secondary earner in the family suffering business failures, a job loss, income loss, etc. due to business shutdown, a fire accident, etc.; either the primary earner or the secondary earner in the family suffering income loss due to a layoff or business failures resulting from covid-19
Benefit types	“Minimum level” of living pursuant to Paragraph 6 of Article 2 of the National Basic Living Security Act	Livelihoods support (livelihood allowance, housing allowance, school fee exemption), indirect support (loans, interest payment support, tax and social contribution reductions and deferrals, etc.), damage recovery support	Support for livelihood, health, housing, education, etc.
Providers	Special autonomous provinces, cities, gun’s and gu’s	Special disaster areas (respective local governments)	Ministry of Health and Welfare (emergency support officials)



Concluding remarks

The role of emergency support is expected to increase to a great extent as the economic impact of the covid-19 pandemic continues to play out. Asset limits for emergency support have been temporarily relaxed (from KRW 118 million to KRW 160 million for residents in small- to medium-sized cities), but there is a need for a temporary removal of asset restrictions for households and businesses that have been economically affected by covid-19. Also important is to consider the relationship between economic difficulties and suicide. For example, the sharp increase in poverty in times of the 1997 financial crisis and the 2008 economic crisis was coincided with marked increases in the number of suicides. Job loss is of particular concern, as it is an emotionally-traumatic life event that brings rapid declines in living standards and increases in indebtedness.

The 2015 MERS outbreak was a decisive incident that led Korea to refine its quarantine system. Socio-economic crises may continue to occur repeatedly as consequences of natural disasters, infectious diseases and periodic economic recessions. Among the implications of lessons learned from the covid-19 pandemic is that it is important to understand how useful such usual measures as sick pay, unemployment benefits, child care leave, active labor market policy, etc., can be not only as means of protection against everyday social risks but also as instruments of support in crisis situations. The covid-19 pandemic has provided a strong rationale for revamping social safety nets (and reducing gaps in the social insurance schemes) for precarious workers and socially underprivileged groups.